

# **SFFAS 50 Overview & Proposed Project/TR Guidance**



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# DISCLAIMER



- Views expressed are those of the speaker.

# Opening Balances for General PP&E



- SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*
  - Alternative methods in establishing opening balances for general PP&E accomplished through comprehensive implementation guidance in SFFAS 6
  - Amends SFFAS 6, SFFAS 10, SFFAS 23 and rescinds SFFAS 35

# Opening Balances for General PP&E



- Using Deemed Cost for establishing opening balances of all general PP&E.
  - ✦ Several valuation methods permitted (same as SFFAS 48-replacement cost, estimated historical cost, and fair value)
  - ✦ Flexible dates to allow components to establish opening balances at different dates
  - ✦ Once established, considered GAAP
- Selecting between deemed cost and prospective capitalization of internal use software
- Allowing an exclusion of land and land rights with disclosure of acreage information and expensing of future acquisitions

# Opening Balances for General PP&E



- Quick Recap of Due Process Issues

- Respondents disagreed with land proposal

- ✦ Key reasons- inconsistency & added cost
    - ✦ FASAB to begin project related to land & land rights

- Reasonable estimates and the rescission of SFFAS 35.

- ✦ SFFAS 6 was revised to include the following in par. 26:

26. All general PP&E shall be recorded at cost. Although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of general PP&E, in accordance with the asset recognition and measurement provisions herein. Cost shall include all costs incurred to bring the PP&E....

- ✦ Similar change made in SFFAS 10

- Other areas- in- service dates, land rights, fully depreciated assets, and audit support

# Opening Balances for General PP&E



- Disclosures
  - Component Reporting Entity Disclosures
    - ✦ Similar to SFFAS 48-describe the method used, but no disclosure of amounts of deemed cost
    - ✦ Election to exclude land and land rights should be disclosed, with acreage information
    - ✦ Election to apply prospective capitalization of IUS should be disclosed
    - ✦ Different alternative methods (for land & land rights and prospective capitalization of IUS) applied by sub-component reporting entities consolidated into a larger reporting should be disclosed
  - Financial Report of the U.S. Government Disclosures
    - ✦ Identify component reporting entities that apply deemed cost, elected to exclude land & land rights (also the number of acres), elected prospective capitalization of IUS and include a reference to the component reporting entity's financial report
- Issued August 4, 2016
  - Effective FY17, but earlier implementation encouraged

# SFFAS 50-Proposed Project/TR Guidance



- Approval of Amendments to TR 13, *Implementation Guide for Estimating the Historical Cost of General Property, Plant & Equipment* and TR 15, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*
- Approval for a project to develop implementation guidance related to SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*

# Approval of Amendments to TR 13 & TR15



- Conforming Amendments to Technical Releases (TR)
  - ✦ The TR amendments in **TR 13 and TR 15** will acknowledge the rescission of SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23* and remove the reference.
  - ✦ Important to update TRs because this was brought up during due process. Based on the comments, users rely on the TRs.
  - ✦ TR guidance would update that all standards-level implementation guidance for general PP& E (with the exception of certain provisions applicable to internal use software) resides in SFFAS 6 (versus SFFAS 23 and SFFAS 35.)



# Approval for a project to develop implementation guidance related to SFFAS 50



- Project goal: Assist with Implementation issues surrounding SFFAS 50 by providing timely guidance.
  - Suggest forming a working group to address the issues and develop illustrates.
  - Suggest establishing a **date certain** for DoD and other reporting entities to request areas for inclusion in the TR. SFFAS 50 allows **early implementation**, so some may need/want the guidance earlier.

# SFFAS 50- Potential Issues

- Capital Improvements – In-Service Date- Clarification of intent with examples.
  - It is not necessary to separately identify the in-service date for material improvements included in the opening balance of a base unit. All improvements included in the opening balances at deemed cost may be treated as if they were placed in-service at the date the base unit was placed in-service. [SFFAS 50 para. 13.e.ii]
    - ✦ Intent was to allow funding/monies to be grouped and not necessary to be tracked separately. One must still consider useful life.
    - ✦ SFFAS 50 did not amend SFFAS 6 par. 37 “Costs which either extend the useful life...over the remaining useful life of the associated general PP&E.

# SFFAS 50- Potential Issues

- Land rights – clarification of disclosures by incorporating a reference as explained in the BfC
  - ....A component reporting entity electing to exclude land and land rights from its general PP&E opening balances must disclose, with a reference on the balance sheet to the related disclosure, the number of acres held at the beginning of each reporting period, the number of acres added during the period, the number of acres disposed of during the period, and the number of acres held at the end of each reporting period....[SFFAS 50 par. 13 h. ii]
  - ... The Board recognizes that land rights are diverse, situation specific, and may not always result in disclosures required by this Statement. In fact, SFFAS 6 provides that land rights that are for a specified period of time shall be depreciated or amortized over that time period. The Board believes this is a cost effective approach for opening balances of land rights and completion of the land project would more fully research the issues and provide comprehensive standards...[SFFAS 50 par. A19.]
    - ✦ Intent was to recognize there may be situations with land rights when disclosures may not be required by this Statement. One must always determine if disclosures for land rights are required and appropriate considering guidance in SFFAS 6 and materiality always applies.

# SFFAS 50- Potential Issues



- Recording Fully Depreciated Assets (NBV \$0) that are still in use. Clarification with examples.
  - SFFAS 50 did not change SFFAS 6 pars. 41- 42
  - Auditors voiced concerns in this area- can't ignore assets that are being used
  - Relates back to capitalization thresholds and useful lives
  - Needs to be a process that is documented & embedded
  - Needs to consider capital improvements

# SFFAS 50- Potential Issues



- Prospective Capitalization of Internal Use Software (IUS), more specifically the issue is with prospective capitalization of IUS Under Development, SFFAS 50 allows
  - Opening balance for existing IUS based on deemed cost
  - Opening balance of \$0 and apply SFFAS 10 prospectively
  - Opening balance of \$0 for IUS in service and to establish an opening balance for IUS in development based on deemed cost, and to apply SFFAS 10 prospectively.
- Some question how future costs relating to IUS-UD should be treated.

# QUESTIONS



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- See the projects discussed on FASAB's active project website at <http://fasab.gov/active-projects/>